

Message Text

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PAGE 01 TOKYO 07785 010606Z
ACTION COME-00

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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 7566

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PASS COMMERCE FOR ASSISTANT SECRETARY WEIL

E.O. 11652: NA
TAGS: BEXP, JA, US
SUBJECT: TRADE FACILITATION COMMITTEE: CASE NO. 7 -
. JAPAN SUN OIL CO

REF: (A) TOKYO 6432, (B) TOKYO 7103,
. (C) STATE 97949, (D) TOKYO 6325

1. IN A LETTER TO E/CMIN DATED APRIL 21, HANAOKA (MITI) HAS INFORMED THE EMBASSY THAT THE COMMODITY TAX ON IMPORTED PETROLEUM PRODUCTS (REF A, PARA 2) WOULD BE ADJUSTED IN ORDER TO "EQUALIZE" THE TAX BURDEN BETWEEN IMPORTED PETROLEUM PRODUCTS AND PRODUCTS PRODUCED DOMESTICALLY FROM IMPORTED CRUDE OIL. THIS WILL BE ACHIEVED BY ASSESSING THE 3.5 PERCENT COMMODITY TAX ON 40 PERCENT OF THE CIF VALUE (PLUS DUTY) OF IMPORTED PRODUCTS, RESULTING IN AN EFFECTIVE TAX BURDEN OF 1.4 PERCENT. THE NEW LEVY BECOMES EFFECTIVE JUNE 1.

2. WE HAVE ALSO RECEIVED A LETTER FROM JAPAN SUN OIL COMPANY CONFIRMING THE 1.4 PERCENT EFFECTIVE RATE ON THE BASE OIL IT IMPORTS FROM THE U.S. JAPAN SUN OIL EXPRESSED APPRECIATION

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FOR THE EMBASSY'S EFFORTS IN OBTAINING RELIEF WHICH, ALTHOUGH NOT EVERYTHING THE COMPANY HAD HOPED FOR, CERTAINLY MITIGATES THE DAMAGE TO ITS COMPETITIVE POSITION IN JAPAN.

3. TEXT OF HANAOKA LETTER CONTAINED PARA 4 BELOW. PARTICULAR ATTENTION IS INVITED TO THE FINAL

PARAGRAPH OF LETTER REGARDING APPLICABILITY OF TFC TO "TAX POLICY," WHICH IS YET ANOTHER INDICATION OF HOW NARROWLY THE GOJ INTERPRETS THE MANDATE OF THE TFC (SEE REFS B, C, AND D). EMBASSY PLANS TO RESPOND BY THANKING TFC TOKYO GROUP CO-CHAIRMAN FOR SUBSTANTIAL RESOLUTION OF A DIFFICULTY CONCERNING A JAPANESE TRADE PROCEDURE ENCOUNTERED BY A U.S. COMPANY IN EXPANDING ITS SALES, THEREBY REBUTTING PRESUMPTION THAT TAX POLICY IS OUTSIDE TFC TERMS OF REFERENCE. WE WILL MAKE SURE HANAOKA GETS THE POINT.

4. BEGIN TEXT: AS CO-CHAIRMAN OF THE TOKYO GROUP OF THE JOINT U.S.-JAPAN TRADE FACILITATION COMMITTEE, I AM RESPONDING TO YOUR LETTER DATED MARCH 24 CONCERNING A COMMODITY TAX ON CRUDE OIL AND PETROLEUM PRODUCTS. (T.F.C. CASE NO. 7)

(PARA) THE JAPANESE GOVERNMENT WILL IMPOSE A COMMODITY TAX, THE SO-CALLED "PETROLEUM TAX" ON CRUDE OIL AND PETROLEUM PRODUCTS AS A SOURCE OF REVENUE IN FINANCING ITS OIL POLICY.

(PARA) THE RATE OF THE PETROLEUM TAX WILL BE 3.5 PER CENT FOR BOTH CRUDE OIL AND PETROLEUM PRODUCTS. THE JAPANESE GOVERNMENT WILL TAKE MEASURES UNDER RELEVANT LAWS TO MAKE AN ADJUSTMENT ON THE PRICE OF A PETROLEUM UNCLASSIFIED

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PRODUCT ON WHICH A PETROLEUM TAX IS TO BE LEVIED, IN ORDER TO EQUALIZE THE TAX BURDEN BETWEEN AN IMPORTED PETROLEUM PRODUCT AND A PETROLEUM PRODUCT WHICH IS MANUFACTURED DOMESTICALLY BY IMPORTED CRUDE OIL ON WHICH THE PETROLEUM TAX HAS BEEN PAID.

(PARA) "BASE OIL" IS CLASSIFIED AS LUBRICATING OIL IN NO.27.10-1-(5) OF THE ANNEXED TARIFF SCHEDULE OF THE CUSTOMS TARIFF LAW. THEREFORE, THE PRICE OF "BASE OIL" ON WHICH A PETROLEUM TAX IS LEVIED IS CALCULATED BY APPLYING THE FORMULA FOR LUBRICATING OILS WHERE THE IMPORTED PRICE ON A CIF BASIS, INCLUDING THE CUSTOMS DUTY, IS MULTIPLIED BY 0.4. THIS MEASURE WILL CONTRIBUTE TO THE EQUALIZATION OF THE TAX BURDEN BETWEEN "BASE OIL" AND A LUBRICATING OIL WHICH IS PRODUCED FROM CRUDE OIL ON WHICH THE PETROLEUM TAX HAS ALREADY BEEN LEVIED.

(PARA) IN ADDITION, SINCE THIS CASE IS IN ITSELF TAX POLICY, I UNDERSTAND THAT IT IS BEYOND THE "DIFFICULTIES CONCERNING JAPANESE TRADE PRACTICES OR PROCEDURES" WHICH IS REFERRED TO IN THE TERMS

OF REFERENCES OF THE JOINT U.S.-JAPAN TRADE
FACILITATION COMMITTEE. END TEXT.

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